

## Message Text

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TO USMISSION GENEVA PRIORITY

INFO AMEMBASSY ANKARA

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E.O. 11652: N/A

TAGS: GATT, ETRD, TU

SUBJECT: GATT BOP CONSULTATIONS WITH TURKEY

REFS: (A) GENEVA 2407, (B) ANKARA 2908,  
(C) ANKARA 2594

1. MISSION SHOULD DRAW UPON FOLLOWING GUIDANCE IN ITS  
PARTICIPATION IN APRIL 24 ARTICLE XVIII CONSULTATIONS AND  
EXAMINATION OF STAMP DUTY WAIVER.

2. RECOMMENDATIONS:  
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A) NOTE GOT EFFORTS AT LIBERALIZING TRADING REGIME AS EVIDENCED BY PERIODIC EXPANSION OF COVERAGE OF PRODUCTS INCLUDED IN LIBERALIZED TRADE LISTS.

B) EXPRESS UNDERSTANDING CONCERNING WORSENEB BOP SITUATION WHICH TURKEY HAS EXPERIENCED IN PAST YEAR BUT URGE THAT GOT AVOID RESTRICTIVE MEASURES WHICH WOULD COMPOUND SIMILAR PROBLEMS FACED BY NUMEROUS OTHER CP'S-- MANY OF THEM WITH FAR LESS COMFORTABLE RESERVE POSITIONS COMPARED WITH TURKEY'S 1.1 BILLION DOLLARS IN RESERVES IN APRIL (REF C).

C) SUPPORT IMF RECOMMENDATION THAT GOT STAMP TAX BE REPLACED BY OTHER FISCAL MEASURES AT AN EARLY DATE. ALTHOUGH MAINTENANCE OF STAMP TAX MAY BE WARRANTED AS A REVENUE MEASURE ON A TEMPORARY BASIS, WE WOULD LIKE TO SEE FIRM COMMITMENT BY GOT TO ITS REPLACEMENT, PREFERABLY BY STAGES, TO BE COMPLETED NOT LATER THAN THE END OF CURRENT GOT FIVE-YEAR PLAN. IF GOT PREPARED TO MAKE THIS UNDERTAKING, MISSION MAY SUPPORT WAIVER FOR PERIOD ENDING DECEMBER 31, 1977. OTHERWISE, MISSION SHOULD SUPPORT WAIVER FOR SUITABLE PERIOD, NOT TO EXCEED ONE YEAR, IN WHICH TO PROVIDE TIME FOR GOT TO DEVELOP PROPOSAL FOR REPLACEMENT OF STAMP TAX CONSISTENT WITH IMF RECOMMENDATION.

### 3. BACKGROUND:

A) ACCORDING TO IMF FIGURES, TURKEY'S BALANCE-OF-PAYMENTS DETERIORATED SUBSTANTIALLY IN 1974. THE 1973 TRADE DEFICIT OF 750 MILLION DOLLARS NEARLY TREBLED TO REACH 2.2 BILLION DOLLARS. THE CURRENT ACCOUNT SWUNG TO A DEFICIT OF 704 MILLION DOLLARS COMPARED WITH A SURPLUS OF 483 MILLION DOLLARS IN 1973. DURING 1974, THE COMBINED INCREASES IN VOLUME AND PRICE OF IMPORTS RAISED THE TOTAL VALUE BY 80 PERCENT ABOVE 1973. AT THE SAME TIME, THE VOLUME OF EXPORTS DECLINED AND THE TOTAL VALUE OF EXPORTS ROSE BY ONLY 16 PERCENT. OF THE DETERIORATION ON TRADE ACCOUNT, ABOUT 580 MILLION DOLLARS WAS ATTRIBUTABLE TO THE RISE LIMITED OFFICIAL USE

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IN THE COST OF NET OIL IMPORTS. PRIVATE FOREIGN CAPITAL AND OTHER CAPITAL INFLOWS AMOUNTED TO 386 MILLION DOLLARS IN 1974 LEAVING AN OVERALL DEFICIT OF 289 MILLION DOLLARS WHICH WAS FINANCED IN LARGE PART BY A DECREASE IN RESERVES.

B) WORKERS' REMITTANCES CONTINUED TO INCREASE IN 1974 AND AMOUNTED TO 1,425 MILLION DOLLARS. HOWEVER,

THE INFLOW WAS FAR FROM SUFFICIENT TO COVER THE ENLARGED TRADE GAP.

C) GROSS RESERVES DECLINED IN THE COURSE OF 1974 BY 259 MILLION DOLLARS AND AT THE END OF THE YEAR AMOUNTED TO 1,861 MILLION DOLLARS, OR THE EQUIVALENT OF SIX MONTHS' IMPORTS IN THAT YEAR. A FURTHER DECLINE IN RESERVES OF MORE THAN 300 MILLION DOLLARS OCCURRED IN JANUARY-FEBRUARY 1975.

#### 4. OUTLOOK:

THE OUTLOOK FOR TURKEY'S BALANCE-OF-PAYMENTS IN 1975

REMAINS UNCERTAIN. IMF REPORTS PROJECT 1975 BOP SURPLUS OF 200 MILLION DOLLARS. THE TURKISH AUTHORITIES EXPECT SOME IMPROVEMENT IN THE BALANCE-OF-PAYMENTS IN 1975, PARTICULARLY IN THE TRADE AND CURRENT ACCOUNTS. THE KEY VARIABLES WILL BE: 1) WORLD COMMODITY PRICES AND THE ABILITY OF THE TURKS TO NARROW GOT SUPPORTED DIFFERENTIALS BETWEEN DOMESTIC AND WORLD PRICE LEVELS, 2) THE PROSPECTS FOR TURKISH AGRICULTURAL PRODUCTION AND, 3) THE EXTENT TO WHICH DOMESTIC DEMAND CAN BE CONTROLLED. TURKISH AUTHORITIES ESTIMATE THAT THE DRAWDOWN IN RESERVES DURING 1975 WILL AMOUNT TO ABOUT 400 MILLION DOLLARS. (IBRD PROJECTS A 150 MILLION DOLLAR DRAWDOWN.) GOT PROJECTED DRAWDOWN MAY BE ON THE HIGH SIDE, GIVEN THE DISPARITY IN PROJECTIONS FOR TURKEY'S OVERALL BALANCE-OF-PAYMENTS PROJECTION IN 1975. IN ANY CASE, THE GOT HAS NEARLY COMPLETED ARRANGEMENTS TO DRAW APPROXIMATELY 45 MILLION DOLLARS AGAINST ITS GOLD TRANCHE AT THE IMF AND TO BORROW ABOUT 120 MILLION DOLLARS UNDER THE IMF OIL FACILITY WHICH WILL LIMITED OFFICIAL USE

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ENABLE THEM TO PARTIALLY FINANCE THE PROJECTED DEFICIT.

#### 5. SYSTEM AND METHOD OF RESTRICTION:

A) THE TURKISH TRADE REGIME IS REGULATED BY A COMPLEX SYSTEM OF TARIFF AND NON-TARIFF BARRIERS CHARACTERIZED BY BOTH EXPORT AND IMPORT RESTRICTIONS. THESE BARRIERS, WHICH INCLUDE RELATIVELY HIGH TARIFFS, EXTENSIVE GOVERNMENT PARTICIPATION IN TRADE, SPECIAL IMPORT DOCUMENTATION, IMPORT LICENSING, QUOTAS, IMPORT PREDEPOSITS, AND VARIOUS TAXES AND CHARGES AFFECTING IMPORTS, ARE INTENDED TO LIMIT IMPORTS IN GENERAL RATHER THAN IMPORTS FROM PARTICULAR SOURCES. THE PRINCIPAL REASON FOR MAINTAINING THIS VAST ARRAY OF IMPORT RESTRICTIVE MEASURES IS TURKEY'S CHRONIC BALANCE-OF-PAY-

MENTS PROBLEM.

B) ALTHOUGH SOME BARRIERS, SUCH AS THE LICENSING SYSTEM AND THE PREDEPOSIT SCHEME, HAVE RECENTLY BEEN

LIBERALIZED SLIGHTLY THE REGIME AS A WHOLE REMAINS HIGHLY RESTRICTIVE.

C) THIS RESTRICTIVE SYSTEM DOES NOT, HOWEVER, APPEAR TO HAVE A SERIOUS EFFECT ON U.S. TRADE WITH TURKEY. NEVERTHELESS THE U.S. SHOULD URGE CHANGES, PARTICULARLY SIMPLIFICATION, IN TURKEY'S MOST RESTRICTIVE BARRIERS. SPECIAL EMPHASIS SHOULD BE PLACED ON THE FURTHER LIBERALIZATION OF THE IMPORT LICENSING AND QUOTA SYSTEM, REMOVAL OF THE PREDEPOSIT SCHEME, AND

ELIMINATION OF BURDENSOME CUSTOMS CHARGES SUCH AS THE STAMP TAX (SEE BELOW).

6. STAMP TAX:

THE TURKISH AUTHORITIES HAVE INDICATED IN THEIR AIDE MEMOIRE OF APRIL 11, (REF B) THAT THE STAMP TAX HAS HAD NO EFFECT ON THE LEVEL OF IMPORTS, BUT IS BEING UTILIZED AS A REVENUE MEASURE. IT APPEARS THEREFORE THAT THIS TAX CAN NOT BE JUSTIFIED ON LIMITED OFFICIAL USE

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BALANCE-OF-PAYMENTS GROUNDS. KISSINGER

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## Message Attributes

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